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Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Krutko
Scott P. Johnson

SUBJECT: SEE BELOW

DATE: February 16, 2007

Approved

Date

2/20/07

COUNCIL DISTRICT: Citywide

INFORMATION

SUBJECT: REPORT ON ACTIVITIES UNDERTAKEN BY THE DIRECTOR OF HOUSING AND THE DIRECTOR OF FINANCE UNDER THE DIRECTORS' DELEGATION OF AUTHORITY FOR THE PERIOD OF OCTOBER 1, 2006 THROUGH DECEMBER 31, 2006

EXECUTIVE SUMMARY

This report details actions taken under the City Council's delegation of authority to the Director of Housing and the Director of Finance for the second quarter of Fiscal Year 2006-07. During this quarter, the Director of Housing approved modifications to three (3) existing loans, ninety-six (96) new rehabilitation loans and grants totaling \$1,536,358, four (4) energy grants totaling \$12,000, and one (1) predevelopment loan from the Housing Trust Fund in the amount of \$100,000. The Director of Finance conducted one (1) TEFRA hearing.

BACKGROUND

On September 4, 1990, the City Council adopted Ordinance No. 23589, which delegated to the Director of Housing certain specified authorities in the administration of the City's comprehensive affordable housing program (the "Delegation of Authority"). On May 23, 2000, the Delegation of Authority was amended by Ordinance No. 26127 to clarify certain sections and add several other provisions. On June 25, 2002, the Delegation of Authority was further amended by Ordinance No. 26657 to add several provisions delegating additional authority to the Director of Housing, the Director of Finance, and the City Manager. Subsequently, the City Manager delegated to the Director of Housing the Contract Authority granted to the City

Manager.

The Delegation of Authority is codified in Chapter 5.06 of the Municipal Code. This memorandum reports on activities undertaken pursuant to the Administration's delegated authority for the period of October 1, 2006 through December 31, 2006.

ANALYSIS

The Delegation of Authority ("DOA") Ordinance authorizes the Director of Housing: to develop and implement additional guidelines for housing programs; to adjust terms on housing loans and grants; to change the funding sources of a loan; to convert loans to grants; to loan or to grant Housing and Homeless funds, Predevelopment funds, and Housing Rehabilitation Program funds; to negotiate and to execute grant agreements necessary to implement Council-approved programs adopted in the Annual Action Plan of the Consolidated Plan; to provide management for, and/or dispose of, properties acquired through direct purchase, foreclosure or deed-in-lieu proceedings; to formalize the City Council's policies and procedures regarding housing loan defaults; to apply for federal or State funding; and to make other technical changes. Ordinance No. 26657 further broadened the Director of Housing's authority: to make adjustments, within defined parameters, to loans and grants previously approved by the City Council; to delegate jointly to the Director of Housing and Director of Finance the authority related to the City's issuance of tax-exempt, private-activity bonds to finance the development of affordable housing projects; to delegate to the Director of Finance the authority to hold Tax Equity and Fiscal Responsibility Act ("TEFRA") hearings on the City's proposed issuance of tax-exempt bonds to finance affordable housing projects; and, to determine, within defined parameters, various terms and conditions of loans and grants previously approved by the City Council.

ACTIONS TAKEN BY THE DIRECTOR OF HOUSING AND THE DIRECTOR OF FINANCE

Under the parameters of the Delegation of Authority, the Director of Housing and the Director of Finance have taken the following actions during the period of October 1, 2006 through December 31, 2006:

Modifications to Council-approved Loan Terms & Conditions:

Increase and Modification of Terms on the City's Loan to Chai House II:

On September 27, 2006, the Director of Housing approved a recommendation to take several actions in connection with the restructuring of debt on the Chai House II project because the project was in danger of defaulting on its existing debt. Foreclosure by the first lender would

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wipe out both the City's loan and affordability restrictions. Because of the possibility of default, the Director determined that it was appropriate to do a complete work-out of the City's loan so that the project sponsor can restructure all debt on the project.

On October 13, 2006, the Director of Housing approved an increase of the City's Loan in the amount of \$235,000, with a loan term of 0% interest for a period of 24 months. Funds from the increase will be disbursed for the payment of individual Life Lease Deposits, only upon evidence that the tenant, former tenants, or the heirs of the former tenant have executed an amendment to that tenant's lease that states that the payment of the Life Lease Deposit was used by the Sponsor for project costs and will be paid by the Sponsor when the unit is vacated. As consideration for the loan increase and other actions undertaken in the overall work-out package, the borrower will be repaying a substantial portion of the City's loan much sooner than would otherwise be the case.

All other terms and conditions remained unchanged.

Foreclosure Initiation Proceedings on a Rehabilitation Loan:

On March 17, 1989, the City of San José made a deferred Housing Rehabilitation loan in the amount of \$83,298 to Emma Villagomez and Louise Chaidez, one of her daughters, for the replacement of their single-family residence located at 59 North King Road. An affordability restriction was recorded on title in addition to the deed of trust. The City's loan is in first lien position. The primary borrower, Emma Villagomez, passed away in 1992. At close of Probate in 1993, title to the property was transferred to all of the decedent's children in various proportions, pursuant to court order. In year 2000, it was discovered that the property was no longer insured and that the property taxes were delinquent. In March, 2003, the County Tax Collector issued a Notice of Sale of Tax-Defaulted Property. To prevent the sale of the subject property, staff ordered an appraisal that indicated a market value of \$404,000, and proceeded to pay the back taxes due in the amount of \$32,728.98, which amount is carried on the books as an increase to the loan principal. The County recorded a Rescission of Notice to Sell Tax-Defaulted Property on June 3, 2003.

On May 3, 2006, staff was informed that property taxes are again in default in the amount of \$17,039.86. The Department also has no record that the borrowers have the home insured.

On October 13, 2006, the Director of Housing approved the initiation foreclosure proceedings. The matter has been submitted to Standard Trust Deed Services Company to act as the City's agent in the foreclosure proceedings.

Modification of the Homebuyer Repayment Terms for Seven Hennessey Place Homes:

On May 27, 2003 the City Council approved a Disposition and Development Agreement (DDA) with San José Conservation Corps. (SJCC) for the development of single-family homes on

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Croydon Avenue, near Blossom Hill Road. The DDA involved granting to SJCC City owned-land valued at \$760,000 for the Hennessey Place site.

On December 6, 2006, the Director of Housing approved homebuyer repayment terms for the seven Hennessey Place homes as follows:

- The entire \$760,000 land value will be rolled into down-payment mortgages at \$108,571 per unit subject to 20% Fund restrictions and equity share repayment option.
- Each household will be eligible to use Building Equity and Growth in Neighborhoods (BEGIN) loans to be subordinate.
- All City loans will be 30-year, 0% interest notes, and will be approved subordinate mortgages funded through CalHFA's Affordable Housing Partnership Program.

Loans/Grants Terms and Conditions:

None to report.

Housing Trust Fund Grant:

San José Family Supportive Housing, Inc. was awarded a grant in the amount of \$100,000 for predevelopment expenses related to the development of a new San José Family Shelter, an emergency shelter serving up to 50 families (140 individuals) every night.

The application of a \$100,000 predevelopment loan from the Community Development Block Grant (CDBG) Fund was reported in the activity report for the period of July 1, 2006 through September 30, 2006. The Department was subsequently informed by HUD that predevelopment loans are no longer an eligible CDBG activity. As a result, the Housing Department substituted the grant from the Housing Trust Fund for the previously approved loan.

Housing Rehabilitation and Improvement Loans and Grants Approved:

<u>ACTIVITY</u>	<u>NUMBER</u>	<u>AMOUNT</u>
REHABILITATION LOANS	11	\$380,000.00
REHABILITATION GRANTS	85	\$1,156,358.00
ENERGY GRANTS (stand-alone)	4	\$12,000.00
TOTAL:	100	\$1,548,358.00

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Predevelopment Loans:

None to report.

TEFRA Hearings:

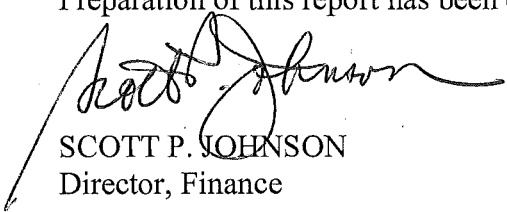
During this reporting period, the Deputy Director of Finance held a TEFRA hearing on behalf of the California Statewide Communities Development Authority ("CSCDA") for the Foxdale Manor Apartments Development. The hearing for the Foxdale Manor Apartments Development was held on November 13, 2006, and continued to November 17, 2006 in order to accommodate provisions of State legislation required by AB 2674, to notify the public of CSCDA's intent to issue tax-exempt bonds in an amount not to exceed \$55,000,000. As a member of CSCDA, the City was required to approve the bond issuance since the project is located within the City's jurisdiction.


Project Name	Units	Location	Bond Amount	Mayor's Certificate No.
Foxdale Manor Apartments	287	1250 Foxdale Loop, San José, CA 95122	\$55,000,000	No. 2006-4 Adopted

Notice for this meeting was published at least fifteen (15) days prior to the hearing date.

COORDINATION:

Preparation of this report has been coordinated with the City Attorney's Office.


SCOTT P. JOHNSON
Director, Finance


LESLEYE KRUTKO
Director, Housing

For more information, contact Leslye Krutko, Director of Housing, at (408) 535-3851.